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DEVELOPMENT WORKSHOP, INC.

**Financial Statements
with
Independent Auditors' Report**

June 30, 2018 and 2017

giving direction to your future

DEVELOPMENT WORKSHOP, INC.
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June 30, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Development Workshop, Inc.
Idaho Falls, Idaho

We have audited the accompanying financial statements of Development Workshop, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2018 and 2017, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

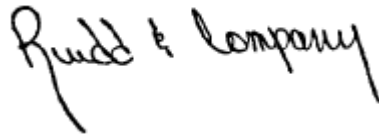
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Development Workshop, Inc. as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Rudd & Company". The signature is written in a cursive, flowing style.

Idaho Falls, Idaho
November 28, 2018

DEVELOPMENT WORKSHOP, INC.
Statements of Financial Position
June 30,

	<u>2018</u>	<u>2017</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 440,853	\$ 357,169
Accounts receivable (net of allowance for uncollectible accounts of \$5,500 and \$5,000)	476,539	468,992
Related party receivable	1,091	3,850
Inventories	428,939	483,567
Prepaid expenses	<u>68,911</u>	<u>24,570</u>
Total Current Assets	<u>1,416,333</u>	<u>1,338,148</u>
Property, Plant and Equipment		
Construction in progress	-	17,477
Land	1,036,187	1,036,187
Land improvements	75,102	75,102
Buildings	4,304,968	4,235,785
Machinery and equipment	<u>2,533,743</u>	<u>2,528,588</u>
	7,950,000	7,893,139
Less accumulated depreciation	<u>(3,448,708)</u>	<u>(3,177,622)</u>
Net Property, Plant and Equipment	<u>4,501,292</u>	<u>4,715,517</u>
Other Assets		
Restricted cash - USDA Note Reserve Account	44,280	44,280
Long-term investments	238,926	236,793
Membership in Transitional Living Center	25,655	25,655
Investment - Development Workshop Enterprises, LLC	<u>2,000</u>	<u>2,000</u>
Total Other Assets	<u>310,861</u>	<u>308,728</u>
	<u>\$ 6,228,486</u>	<u>\$ 6,362,393</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

	<u>2018</u>	<u>2017</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 36,810	\$ 51,122
Accrued payroll	137,979	142,310
Accrued other liabilities	63,919	63,968
Current portion of lease payable	53,388	52,071
Current portion of long-term debt	73,701	70,434
Total Current Liabilities	<u>365,797</u>	<u>379,905</u>
Long-Term Liabilities		
Lease payable	18,380	71,769
Long-term debt	878,886	961,991
Accrued all purpose leave	215,728	219,904
Total Long-Term Liabilities	<u>1,112,994</u>	<u>1,253,664</u>
Total Liabilities	<u>1,478,791</u>	<u>1,633,569</u>
Net Assets		
Unrestricted		
Undesignated	4,695,415	4,684,544
Designated for debt service	44,280	44,280
Temporarily restricted	10,000	-
Total Net Assets	<u>4,749,695</u>	<u>4,728,824</u>
	<u>\$ 6,228,486</u>	<u>\$ 6,362,393</u>

The Accompanying Notes are an Integral
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DEVELOPMENT WORKSHOP, INC.
Statement of Activities
Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Medicaid	\$ 1,592,771	\$ -	\$ 1,592,771
Service contracts income	1,582,484	-	1,582,484
Products income	1,260,799	-	1,260,799
Dept. of Vocational Rehabilitation			
Extended Employment Services	429,582	-	429,582
Dept. of Vocational Rehabilitation	142,262	-	142,262
Other income	141,276	-	141,276
United Way	28,367	-	28,367
Other grant income	25,000	-	25,000
Interest income	11,762	-	11,762
School districts	6,303	-	6,303
Loss on fixed assets	(160)	-	(160)
Loss on investments	(740)	-	(740)
Donations	-	114,946	114,946
Net assets released from restrictions	104,946	(104,946)	-
	<u>5,324,652</u>	<u>10,000</u>	<u>5,334,652</u>
Total Support and Revenue			

The Accompanying Notes are an Integral
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	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program Services			
Rehabilitation	696,547	-	696,547
Production	1,395,411	-	1,395,411
Medicaid	1,329,215	-	1,329,215
Janitorial	1,216,956	-	1,216,956
Total Program Services	<u>4,638,129</u>	<u>-</u>	<u>4,638,129</u>
Support Services			
General and administrative expense	<u>675,652</u>	<u>-</u>	<u>675,652</u>
Total Support Services	<u>675,652</u>	<u>-</u>	<u>675,652</u>
Total Expense	<u>5,313,781</u>	<u>-</u>	<u>5,313,781</u>
Change in Net Assets	10,871	10,000	20,871
Net Assets at Beginning of Year	<u>4,728,824</u>	<u>-</u>	<u>4,728,824</u>
Net Assets at End of Year	<u>\$ 4,739,695</u>	<u>\$ 10,000</u>	<u>\$ 4,749,695</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statement of Activities
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenue			
Service contracts income	\$ 1,579,518	\$ -	\$ 1,579,518
Title XIX income	1,553,616	-	1,553,616
Products income	1,523,186	-	1,523,186
Dept. of Vocational Rehabilitation			
Extended Employment Services	436,880	-	436,880
Other income	153,222	-	153,222
Dept. of Vocational Rehabilitation	151,483	-	151,483
United Way	36,747	-	36,747
School districts	15,253	-	15,253
Gain on investments	11,737	-	11,737
Interest income	5,682	-	5,682
Gain on fixed assets	5,593	-	5,593
Other grant income	5,500	-	5,500
Donations	-	195,943	195,943
Net assets released from restrictions	195,943	(195,943)	-
	<u>5,674,360</u>	<u>-</u>	<u>5,674,360</u>
Total Support and Revenue			

The Accompanying Notes are an Integral
Part of the Financial Statements.

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Expenses			
Program Services			
Rehabilitation	827,841	-	827,841
Production	1,581,811	-	1,581,811
Medicaid	1,357,277	-	1,357,277
Janitorial	1,282,531	-	1,282,531
	<u>5,049,460</u>	<u>-</u>	<u>5,049,460</u>
Support Services			
General and administrative expense	778,380	-	778,380
	<u>778,380</u>	<u>-</u>	<u>778,380</u>
	<u>5,827,840</u>	<u>-</u>	<u>5,827,840</u>
Change in Net Assets	(153,480)	-	(153,480)
Net Assets at Beginning of Year	<u>4,882,304</u>	<u>-</u>	<u>4,882,304</u>
Net Assets at End of Year	<u>\$ 4,728,824</u>	<u>\$ -</u>	<u>\$ 4,728,824</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services		
	Rehabilitation	Production	Medicaid
Direct Materials			
Purchases	\$ -	\$ 362,899	\$ -
Total Direct Materials	-	362,899	-
Direct Labor			
Client labor	3,240	58,675	-
Production labor	3,937	326,537	-
Staff labor	491,470	176,008	874,673
Payroll taxes	37,352	37,723	65,410
Insurance - Workers Comp	19,018	23,339	33,337
Insurance - Employee	35,512	69,692	85,803
Retirement Costs	4,974	6,443	8,259
Total Direct Labor	595,503	698,417	1,067,482
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	28,002	-
Data processing	13,262	3,783	18,665
Depreciation	32,920	132,712	110,191
Dues and subscriptions	48	-	135
Freight - out	-	5,276	-
Insurance - general	10,741	21,801	25,876
Interest	2,504	26,747	10,027
Office supplies/postage	179	82	393
Other expenses	4,691	24,247	16,195
Professional development	55	-	323
Professional services	-	804	-
Public relations	730	-	50
Rent	1,331	98	11,118
Repairs and maintenance	2,172	15,925	7,242
Service contract supplies	-	318	-
Shop and program supplies	1,004	7,242	4,386
Small tool and appliances	-	7,246	2,333
Sub-contracted services	-	4,849	-
Taxes and licenses	680	2,225	1,683
Telephone	6,696	264	773
Travel	2,011	73	3,075
Utilities	6,037	51,630	23,490
Vehicle operation/maintenance	15,983	771	25,778
Total Other Expenses	101,044	334,095	261,733
Total Expenses	\$ 696,547	\$ 1,395,411	\$ 1,329,215

The Accompanying Notes are an Integral
Part of the Financial Statements.

Program Services			
Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ -	\$ 362,899	\$ -	\$ 362,899
-	362,899	-	362,899
531	62,446	3,508	65,954
709,656	1,040,130	60	1,040,190
82,746	1,624,897	408,957	2,033,854
60,599	201,084	30,573	231,657
40,091	115,785	14,317	130,102
163,466	354,473	30,875	385,348
21,773	41,449	5,141	46,590
1,078,862	3,440,264	493,431	3,933,695
-	-	17,981	17,981
-	-	5,204	5,204
56,230	84,232	-	84,232
1,312	37,022	10,403	47,425
5,611	281,434	18,846	300,280
-	183	5,709	5,892
-	5,276	-	5,276
2,028	60,446	6,907	67,353
-	39,278	10,790	50,068
-	654	8,066	8,720
2,806	47,939	24,642	72,581
-	378	5,286	5,664
25	829	26,130	26,959
-	780	11,795	12,575
1,951	14,498	100	14,598
1,822	27,161	9,388	36,549
50,725	51,043	-	51,043
60	12,692	4,237	16,929
1,089	10,668	2,052	12,720
6,575	11,424	642	12,066
203	4,791	738	5,529
-	7,733	1,443	9,176
43	5,202	3,325	8,527
1,328	82,485	3,494	85,979
6,286	48,818	5,043	53,861
138,094	834,966	182,221	1,017,187
\$ 1,216,956	\$ 4,638,129	\$ 675,652	\$ 5,313,781

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services		
	Rehabilitation	Production	Medicaid
Direct Materials			
Purchases	\$ -	\$ 396,791	\$ -
Total Direct Materials	-	396,791	-
Direct Labor			
Client labor	1,381	62,669	-
Production labor	6,888	417,229	-
Staff labor	571,699	215,979	908,440
Payroll taxes	49,370	51,226	77,742
Insurance - Workers Comp	20,988	27,524	32,970
Insurance - Employee	60,273	80,783	93,732
Retirement Costs	5,491	5,978	7,730
Total Direct Labor	716,090	861,388	1,120,614
Other Expenses			
Advertising	-	-	-
Bad debts	-	-	-
Commissions	-	23,500	-
Data processing	12,086	3,330	17,610
Depreciation	34,087	123,374	100,975
Dues and subscriptions	226	-	450
Freight - out	-	5,582	-
Insurance - general	6,745	13,675	15,241
Interest	3,311	26,706	11,385
Office supplies/postage	149	211	417
Office equipment/lease expense	-	-	-
Other expenses	6,252	22,132	15,782
Professional development	645	-	1,040
Professional services	-	-	70
Public relations	1,303	-	140
Rent	3,319	98	9,426
Repairs and maintenance	3,395	24,091	9,537
Service contract supplies	-	428	-
Shop and program supplies	4,797	7,687	3,757
Small tool and appliances	1,542	4,966	893
Sub-contracted services	-	15,744	-
Taxes and licenses	738	808	1,835
Telephone	9,900	555	1,183
Travel	160	153	1,263
Utilities	7,743	48,936	22,118
Vehicle operation/maintenance	15,353	1,656	23,541
Total Other Expenses	111,751	323,632	236,663
Total Expenses	\$ 827,841	\$ 1,581,811	\$ 1,357,277

The Accompanying Notes are an Integral
Part of the Financial Statements.

Program Services			
Janitorial	Total Program Services	General and Administrative	Total Expenses
\$ -	\$ 396,791	\$ -	\$ 396,791
-	396,791	-	396,791
875	64,925	4,397	69,322
734,262	1,158,379	165	1,158,544
90,482	1,786,600	449,224	2,235,824
71,786	250,124	39,005	289,129
35,516	116,998	14,972	131,970
186,871	421,659	41,602	463,261
19,863	39,062	6,044	45,106
<u>1,139,655</u>	<u>3,837,747</u>	<u>555,409</u>	<u>4,393,156</u>
-	-	11,391	11,391
-	-	12,661	12,661
56,837	80,337	-	80,337
1,389	34,415	11,451	45,866
6,272	264,708	21,996	286,704
-	676	5,110	5,786
-	5,582	-	5,582
2,488	38,149	20,751	58,900
37	41,439	13,253	54,692
-	777	12,073	12,850
-	-	14,615	14,615
4,056	48,222	19,215	67,437
-	1,685	4,560	6,245
-	70	24,701	24,771
-	1,443	17,612	19,055
1,655	14,498	106	14,604
3,096	40,119	11,566	51,685
53,017	53,445	-	53,445
-	16,241	2,875	19,116
1,768	9,169	4,030	13,199
7,001	22,745	1,383	24,128
233	3,614	1,954	5,568
17	11,655	1,176	12,831
792	2,368	2,064	4,432
1,202	79,999	5,261	85,260
3,016	43,566	3,167	46,733
<u>142,876</u>	<u>814,922</u>	<u>222,971</u>	<u>1,037,893</u>
<u>\$ 1,282,531</u>	<u>\$ 5,049,460</u>	<u>\$ 778,380</u>	<u>\$ 5,827,840</u>

The Accompanying Notes are an Integral Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Statements of Cash Flows
Years Ended June 30,

	<u>2018</u>	<u>2017</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 20,871	\$ (153,480)
Adjustments to reconcile net assets to net cash provided (used) by operating activities		
(Gain) loss on sale of assets	160	(5,593)
(Gain) loss on investments	740	(11,737)
Depreciation	300,280	286,704
Net change in		
Accounts receivable	(4,788)	(4,291)
Other receivables	-	339
Inventories	54,628	3,216
Prepaid expenses	(44,341)	17,833
Accounts payable	(14,312)	(1,060)
Accrued expenses	(4,380)	53,726
Accrued all purpose leave	(4,176)	761
	<u>304,682</u>	<u>186,418</u>
Net Cash Provided by Operating Activities		
	<u>304,682</u>	<u>186,418</u>
Cash Flows from Investing Activities		
Proceeds from sale of property and equipment	800	5,593
Purchases of property and equipment	(87,015)	(176,246)
Purchases of investments	(2,873)	(2,335)
	<u>(89,088)</u>	<u>(172,988)</u>
Net Cash Used by Investing Activities		
	<u>(89,088)</u>	<u>(172,988)</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

Cash Flows from Financing Activities

Payments on long-term debt	(79,838)	(80,703)
Payments on capital lease	<u>(52,072)</u>	<u>(50,321)</u>
Net Cash Used by Financing Activities	<u>(131,910)</u>	<u>(131,024)</u>
Net Increase (Decrease) in Cash	83,684	(117,594)
Cash at Beginning of Year	<u>401,449</u>	<u>519,043</u>
Cash at End of Year	<u>\$ 485,133</u>	<u>\$ 401,449</u>
Balances Per Statements of Financial Position		
Cash and cash equivalents	\$ 440,853	\$ 357,169
Restricted Cash - USDA Note Reserve Account	<u>44,280</u>	<u>44,280</u>
	<u>\$ 485,133</u>	<u>\$ 401,449</u>

The Accompanying Notes are an Integral
Part of the Financial Statements.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements
Years Ended June 30, 2018 and 2017

1. Summary of Significant Accounting Policies

Nature of Activities

The Development Workshop, Inc. (the Workshop) was incorporated in August 1973 and is governed by a Board of Directors who serve without compensation. The Workshop operates a community rehabilitation program to provide vocational services, training, and employment to persons with disabilities with the goal of making them self-supporting. The Workshop serves individuals primarily in a nine county area in eastern Idaho through facilities located in Idaho Falls, Rexburg, and Salmon.

The revenues of the Workshop are derived primarily from the following sources:

1. Contracts with various governmental agencies for services provided in training and employment of persons with a wide range and severity of disabilities.
2. Sale of products and services to federal and state governmental agencies.
3. Sale of products and services in the private sector.
4. Contributions by civic organizations, foundations, corporations, trusts and individuals.

Donated services are not recorded in the books unless the services are to be capitalized, in which case the services are recorded at their fair market value.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Financial Statement Presentation

The Workshop reports financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Each class is defined as follows:

Permanently Restricted - Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions, which do not expire by passage of time.

Temporarily Restricted - Those net assets resulting from inflows of assets whose use is limited by donor-imposed restrictions which expire by passage of time or are fulfilled by actions of the Workshop.

Unrestricted - Those net assets that are neither permanently or temporarily restricted.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Property and Equipment

The Organization capitalizes property and equipment over \$1,000. Property and equipment purchased are recorded in the books at cost. Equipment that is leased under capital leases is recorded at the present value of the lease payments to be made over the term of the lease. All depreciable assets are being depreciated using the straight-line method, over their estimated useful lives that range from three to forty years.

Inventories

Inventories are valued at the lower of cost (first in, first out) or market.

Accounts Receivable

Accounts receivable are reported at the outstanding balances due from customers for products and services provided. Receivables are billed monthly. An allowance for uncollectible accounts has been established as an estimate of those balances which may not be collected. The allowance is based on experience and other circumstances which may affect the ability of clients and customers to make their payments. Receivables are considered impaired if payments are not received in accordance with the contractual terms. It is the Workshop's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected. As of June 30, 2018 and 2017 there was \$13,475 and \$9,039 of accounts receivable in excess of 90 days, respectively.

Investments

Investments in marketable securities with readily determinable fair values are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Short-term investments consist of stocks and debt securities with original maturities of twelve months or less. Long-term investments consist of mutual funds and debt securities with original maturities greater than twelve months.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Workshop considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

Tax Exempt Status

The Workshop has received a determination from the Internal Revenue Service that it qualifies as a nonprofit organization under section 501(c)(3) of the Internal Revenue Code. The Workshop also has received a determination from the State of Idaho that it qualifies as a corporation exempt from income taxes, including the minimum tax provisions, under section 63-3025C of the Idaho Code. Accordingly, there is no accounting for income taxes in the accompanying financial statements.

The 2016 through 2018 tax years remain open to examination by the Internal Revenue Service and the Idaho State Tax Commission. These taxing authorities have the authority to examine those years until the applicable statute of limitations expire.

Statement of Functional Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Advertising

Advertising costs are accrued as a prepaid asset when incurred and expensed each month over the estimated benefit period. Advertising expense for the year ended June 30, 2018 was \$17,981 with \$0 included as a prepaid asset at year end. Advertising expense for the year ended June 30, 2017 was \$11,391 with \$100 included as a prepaid asset at year end.

Subsequent Events

The Workshop has evaluated subsequent events and transactions through November 28, 2018, the date the financial statements were available to be issued.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

2. Cash and Cash Equivalents

The Workshop maintains several checking and savings accounts in local financial institutions. At times the total cash and cash equivalents held by these financial institutions exceed FDIC insurance coverage. At June 30, 2018 and 2017, the Workshop had \$253,231 and \$188,992 uninsured and uncollateralized, respectively.

3. Restricted Cash – USDA Note Reserve Account

Cash has been restricted under a debt service agreement with the USDA to reflect the required establishment of a reserve account to be used for future note payments or for repairs or improvements to the financed facility upon prior written approval.

4. Related Party Transactions

The Development Workshop, Inc. provides administrative services to the Development Workshop Foundation, a related entity, on a reimbursement basis. Charges for services and reimbursed expenses amounted to \$53,183 and \$68,120 for the years ended June 30, 2018 and 2017, respectively.

As of June 30, 2018 and 2017, the Workshop had related party receivables outstanding from the Foundation of \$1,091 and \$3,850, respectively.

The Workshop receives donations from the Foundation for grants, client scholarships, fixed asset purchases, and other expenses. For the years ended June 30, 2018 and 2017, the Workshop received \$98,913 and \$177,137, respectively, of contributions from the Foundation.

The Workshop leases vehicles from the Foundation under capital leases. For the year ended June 30, 2018 and 2017, the Workshop paid \$54,573 and \$54,573, respectively, to the Foundation to lease vehicles.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

5. Inventories

Major classes of inventories at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Raw Materials	\$ 253,262	\$ 290,846
Finished Goods	<u>175,677</u>	<u>192,721</u>
	<u>\$ 428,939</u>	<u>\$ 483,567</u>

6. Membership in Transitional Living Center

During the fiscal year ended June 30, 1990, Development Workshop, Inc. purchased land for a client residential housing facility on behalf of Transitional Living Center, Inc. After the necessary financing for construction of the housing facility was in place, Development Workshop, Inc. transferred title of the land to Transitional Living Center, Inc. on August 31, 1992. Construction on the housing facility began in October 1992 and was completed in August 1994. Clients have been living in the facility since November 1993.

In 1994, Development Workshop, Inc. was reimbursed by HUD for a portion of the cost of the land for the Transitional Living Center. The remaining cost for the land, or \$25,655, represents the Workshop's membership in Transitional Living Center, Inc., a non-profit organization.

7. Investment – Development Workshop Enterprises, LLC

On September 25, 2006, Development Workshop, Inc. created a new for-profit company called Development Workshop Enterprises, LLC. The purpose of the new company is to provide training opportunities for people with disabilities and a vehicle for contracting with private businesses. The initial investment is being carried on the books of the Workshop at the original cost of \$2,000. There was no activity in the Development Workshop Enterprises, LLC for the years ended June 30, 2018 and 2017.

8. Fair Value Measurement

FASB ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). The following summarizes the fair value hierarchy:

- Level 1 Inputs – Unadjusted quoted market prices for identical assets and liabilities in an active market.
- Level 2 Inputs – Inputs other than the quoted process in active markets that are observable either directly or indirectly.
- Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

FASB ASC 820 required the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurements. Valuation techniques used need to maximize the use of observable inputs.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

8. Fair Value Measurement (continued)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2018 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term Investments				
Corporate bonds	\$ 39,566	\$ 39,566	\$ -	\$ -
Municipal bonds	35,769	35,769	-	-
Real estate investment trust	8,891	8,891	-	-
Equity mutual funds	109,472	109,472	-	-
International equity mutual funds	45,228	45,228	-	-
Total Long-term Investments	\$ 238,926	\$ 238,926	\$ -	\$ -

The fair value measurements and levels with the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at June 30, 2017 are as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Long-term Investments				
Corporate bonds	\$ 39,946	\$ 39,946	\$ -	\$ -
Municipal bonds	36,336	36,336	-	-
Real estate investment trust	20,755	20,755	-	-
Equity mutual funds	97,861	97,861	-	-
International equity mutual funds	41,895	41,895	-	-
Total Long-term Investments	\$ 236,793	\$ 236,793	\$ -	\$ -

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

8. Fair Value Measurement (continued)

Long-term investments are reported at fair value and measured on a recurring basis determined by reference to quoted market prices and other relevant information generated by market transactions.

The Organization recognizes transfers of assets into and out of levels as of the date an event or change in circumstances causes the transfer. There were no transfers between levels in the years ended June 30, 2018 and 2017.

9. Employee Retirement Plan

The Workshop has a tax sheltered deferred annuity plan, as described in Section 403(b) of the Internal Revenue Code, covering all staff employees who have met the service requirements. The contribution by the Workshop for staff employees is at a rate of zero to 2.5% of the employee's compensation depending upon the employee's length of service. Workshop contributions for Service Contract Act employees are determined by the federal contract they worked on and the contractual rate specified. Voluntary contributions to the plan are permitted to a maximum of \$18,000 with a \$5,500 additional allowance for employees who are 50 years old or older. Contributions to the retirement plan amounted to \$46,590 and \$45,106 for the years ended June 30, 2018 and 2017, respectively.

10. Operating Leases

The Workshop entered into an operating lease agreement in June 2013 for office equipment. The lease calls for monthly payments of \$901 and has a term of 60 months. Lease expense for the years ended June 30, 2018 and 2017 were \$5,404 and \$14,615, respectively. There are no future minimum lease payments required under the operating lease as of June 30, 2018.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

11. Capital Leases

In the years ended June 30, 2018 and 2017, the Workshop entered into agreements with the Development Workshop Foundation to lease vehicles under capital leases. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Workshop's assets and liabilities.

The following is an analysis of the leased assets included in fixed assets:

Vehicles	\$ 252,632
Less accumulated depreciation	<u>(181,266)</u>
	<u>\$ 71,366</u>

The lease agreements contain a bargain purchase option at the end of the lease term. The following is a schedule by years of future minimum payments required under the leases together with their present value at June 30, 2018:

2019	\$ 54,573
2020	18,434
2021	<u>104</u>
Total minimum lease payments	73,111
Less amount representing interest	<u>(1,343)</u>
	<u>\$ 71,768</u>

Amortization of assets held under capital leases is included in depreciation expense.

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

12. Long-term Debt

Long-term debt as of June 30, is as follows:

	<u>2018</u>	<u>2017</u>
4.25% note payable to USDA, due in monthly installments of \$3,690, including interest. Original principal amount of \$750,000. Secured by deed of trust. Final installment due July 2039.	\$ 546,215	\$ 566,804
4.03% note payable to US Bank, due in 59 monthly installments of \$826, including interest, with one final payment of all principal and interest due August 10, 2018. Original principal amount of \$44,750, secured by deed of trust.	1,456	10,310
3.75% note payable to USDA, due in monthly installments of \$1,894, including interest. Original principal amount of \$408,000, secured by deed of trust. Final installment due December 2040.	343,782	353,421
0% note payable to SourceAmerica, due in quarterly installments of \$10,189. Original principal amount of \$203,780, secured by deed of trust. Final installment due October 2019.	<u>61,134</u>	<u>101,890</u>
	952,587	1,032,425
Less current portion of long-term debt	<u>(73,701)</u>	<u>(70,434)</u>
	<u>\$ 878,886</u>	<u>\$ 961,991</u>

DEVELOPMENT WORKSHOP, INC.
Notes to Financial Statements (continued)
June 30, 2018 and 2017

12. Long-term Debt (continued)

Future installments of long-term debt as of June 30, 2018 are as follows:

2019	.....	\$	73,701
2020	.....		53,179
2021	.....		33,968
2022	.....		35,594
2023	.....		37,078
Thereafter	.....		<u>719,067</u>
		\$	<u>952,587</u>

13. Statement of Cash Flows Additional Information

Interest paid by the Workshop for the years ended June 30, 2018 and 2017 amounted to \$50,068 and \$54,611, respectively.

Since the Workshop is a non-profit organization, there are no payments for income taxes.

14. Temporarily Restricted Net Assets

During 2018, net assets were temporarily restricted for grants, client scholarships, and other expenses. The amount of contributions received from the Development Workshop Foundation for June 30, 2018 was \$98,913. The amount of other donations amounted to \$16,033. These restrictions were satisfied during the June 30, 2018 fiscal year, except for a \$10,000 donation restricted for purchase of security equipment.

During 2017, net assets were temporarily restricted for grants, client scholarships, and other expenses. The amount of contribution received from the Development Workshop Foundation for June 30, 2017 was \$177,137. The amount of other donations amounted to \$18,806. These restrictions were satisfied during the June 30, 2017 fiscal year.

15. Permanently Restricted Net Assets

The Workshop currently has no permanently restricted net assets at June 30, 2018 and 2017.